Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

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INVESTMENT SELECTION AND REVIEW ISSUE

REITS SELLING UNDER $5 MAY OFFER THE BEST SPECULATIVE VALUE NOW

The REIT and real estate recovery has now reached the stage where we think investors can begin looking at some of the very low priced REITs, mainly those selling from $1 to $5 per share. There are some very compelling reasons for turning attention to this group now.

First, 50 trusts selling over $5 are well priced, by and large. Right now an even 50 of the 131 trusts monitored by REALTY TRUST REVIEW are selling above $5. All but a handful of these (seven to be exact) are now paying regular dividends and dividends may be forthcoming before long by most of the seven (C.I. Realty, First Commerce, Franklin Realty, ICM Realty, Investors Realty, U.S. Bancorp Realty & Mortgage Trust, and Walter Realty Inv.). Investors have now combed over prospects for these 50 generally well financed and managed trusts and their share prices reflect very careful valuations by investors. By and large, you'll find fair and solid values among them but few bargains.

Second, the big play in REIT bonds may be over. Again, the bond lists have been combed by investors and market prices by and large reflect very exact judgments on workout value by sophisticated investors. Trading volume is down. Moreover, North American Mtg. Inv. has just announced a debt exchange offer that may put the quietus on the yield-to-maturity play in REIT bonds. NAMI plans to offer $1,050

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GROUP RATES ON REQUEST

LOW-PRICED REITS

Under $1/share

American Fletcher	13/16
Barnett Mtg	38¢
Barnett-Winston Inv.	7/16
BRT Realty	7/8
C.I. Mortgage Group	1/2
Cit. & So. Realty	44¢
Citizens Growth	1/2
Citizens Mtg. Inv.	1/8
Colwell Mtg. Trust	3/4*
Cont. Mtg. Inv.	9¢#
Dominion Mtg.& Rlty.	19¢#
Fidelity Mtg. Inv.	31¢#
First Mtg. Inv.	5/16
First Vir. Mtg	3/4
Great Amer. Mgmt	1/4#
Guardian Mtg. Inv.	33¢
Independence Mtg	3/16
Justice Mtg	1/2
KMC Mtg. Inv.	7/8
LMI Investors	7/8
National Mtg	43¢#
NJB Prime Inv.	19¢
TMC Mtg. Inv.	19¢
TIERCO	7/8
Tri-South Mtg	3/4

#Bankruptcy filed or completed. * To file preplanned bankruptcy.

$1 to $3/share

American Century	2½
American Realty	1¼
Atico Mtg. Inv.	2
Barnes Mtg. Trust	2½
Bay Colony Prop	2-5/8
Benef. Std. Mtg	1-3/4
BT Mtg. Inv.	1-5/8
Builders Inv. Group	1
Cameron-Brown Inv.	2-1/8
Capital Mtg. Inv.	1-1/8
Chase Manhattan Tr.	2
Cont. Ill. Realty	2-1/8
Cousins Mtg. & Eq.	1¼
Diversified Mtg	1-1/8
Fidelco Growth Inv.	1-3/4
First of Denver Mtg.	2½
First Memphis Rlty.	2
First Newport(Alison)	1-1/8
First Penn. Mtg	1-5/8
First Wisc. Mtg	2.06
Flatley Realty	3
GMR Prop. (Gulf Mtg.)	2-1/8
Hamilton Inv.	1-1/8
Heitman Mtg. Inv.	1-3/8
HNC Mtg. & Rlty	1
IDS Realty Trust	1.17
Insti. Investors	1-3/4
Lincoln Mtg	1
Midland Mtg. Inv.	1½
Mission Inv. Tr.	1-5/8
Mtg. Inv. Washington.	3
Plaza Realty	1
Republic Mtg	2
State Mutual Inv.	2.33
Summit Properties	3
Texas First Mtg	2-3/4
UMET Trust	1-3/4
Western Mtg. Inv.	2-7/8

$3 to $5/share

API Trust	4½**
Atlanta Nat. RE	4
Central Mtg	4½
Citinational Dev.	4-1/8
CleveTrust Realty	3¼
First Fidelity Inv.	4½**
Hanover Square Rlty.	4-3/8
Indiana Mtg.& Rl.	3¼
Mtg. Trust America	4½
No.Amer. Mtg.Inv.	3-3/8
Northwstrn. Fin.Inv.	4-1/8
Property Trust Amer.	4-7/8**
Saul (B.F.) REIT	4-3/4
U.S. Realty Inv.	4
Wachovia Realty	4-1/4
Wisconsin REIT	3-1/8

** Paying dividend.

principal amount of new 8½% senior subordinated debentures due in 10 years for each $1,000 of a current 5½% subordinated debenture due March 1979. The NAMI bonds were trading at about 85½ before first word of the restructuring where they yielded about 15.1% to maturity (composed of about 6.5% interest income and 8.6% annualized capital gain). NAMI's proposed offer, set for October, would give holders about a 10½% interest return on current market value but yield to maturity would fall. If NAMI's offer succeeds, investors expect other trusts with near-term maturities of subordinated debt ts line up with similar offerings, thus effectively ending the yield-to-maturity play for investors. For this reason we believe speculative funds will find this market less attractive now.

Third, the 25 trusts selling below $1 have little hope of rapid recovery. Most are in the elephant's graveyard of stocks, delisted and bypassed by the general market. Many need miracles to recover and while some have bank sponsors capable of being miracle workers, so far these sponsors have seemed in no rush for emergency service. We list these stocks above but believe there is only a remote chance for superior performance from this group.

That leaves the 56 trusts with shares selling in the $1 to $5 range--the area where the next class of sturdy performers is likely to arise. Why? Because over half --27-- of trusts now selling over $5 sold down below that price in the 1974-5 real estate recession. Since many brokerage firms restrict margin buying on listed stocks below $5, the best time to establish position is when prices are below $5. Thus the best hunting ground for undervalued trusts is in this group.

Finally, the fundamentals are running strongly in favor of REIT investors. Right now the stock market, as reflected by the Dow-Jones Industrials, has hit an air pocket on fears of tighter money and rising interest rates ahead. But even as this fear spreads, savvy economists are locked in debate over how much the economy will slow in the next four quarters through mid-1978. The consensus seems to be that real GNP growth will slow from about 6% now to 3%-4% early next year, and that this slowing will push the Carter Administration into converting its widely advertised tax "reform" bill into a tax reduction bill next year. All this indicates that demand for money will be less than ebullient in the months ahead, not soaring at the rate that makes the Federal Reserve Board slam on the money brakes. All this means to us that the real estate recovery will continue, and that demand for new space will grow more rapidly than ability of developers to produce space. Thus in picking the best recovery candidates from the list on p. 2, we've opted for trusts with large amounts of completed income property and relatively low exposure to raw land, which likely will be slow to move.

Here are brief reviews of trusts viewed as strong speculative recovery candidates from the $1 to $5 range. In addition to those reviewed, we favor Flatley Realty (see RTR, Nov. 26, 1976); Maryland Realty (RTR, Apr. 8, 1977); Hanover Square Realty (Dec. 10, 1976); and CleveTrust Realty (RTR, Feb. 11, 1977). Strong cases can be made for several others in our list and we'll be reviewing them soon.

BAY COLONY PROPERTY CO. (NYSE--2½) FY May 31

Real estate investments: Bay Colony, formerly Cabot, Cabot & Forbes Land Trust, stresses land purchase/leaseback investments and mortgage loans convertible into such leasebacks, which it likens to preferred equity positions. In an effort to expand leasebacks, it made a large volume of convertible land development loans. When the 1974-5 real estate recession began, BAY had to take over this land. As a result holdings of $240 million are now 73% leasebacks and mortgages on completed properties and 27% undeveloped land, mostly now owned directly. About 67% of investments aren't earning income, a percentage that's held steady for over a year now. As a result BAY faces a long job of converting its land holdings into cash, and to that end gave up its REIT status June 1, letting it manage and develop properties directly. Current plans call for building condominiums on a South Padre Island, Tex. tract, and to develop other parcels. BAY recently sold a difficult parcel, Sailboat Key in Miami, for all-cash for its written-down value, and has sold $15 million land in Benedict Canyon near Beverly Hills, Cal. to four builders. Thus the land position is being whittled but more lengthy workouts are expected at some holdings, namely $8.2 million in land and homesites at Sea Palms resort on St. Simon's Island, Ga. and $6½ million at the planned Sandestin resort in Destin, Fla. Major owned properties include the Sheraton Hotel in Newport Beach, Cal., $10 million investment and now to be expanded; the Carriage House Hotel in Miami Beach, $21.2 million; a high-rise in White Plains, N.Y., $7.7 million; and high-rise apartments in Collingswood, N.J., $15.4 million.

Financing: BAY operates under a credit agreement with its banks that required a debt repayment of $11 million in May (paid in June) and an additional $6.7 million in Nov. 1977. BAY used proceeds from the Sailboat Key and other sales to make the May payment, and probably will sell some other assets to make the Nov. payment. Interest is currently being paid at 5% plus contingent interest, if earned; it's indicated some contingent interest was earned in the May 1977 fiscal year. BAY should have no trouble meeting Sept. interest payments on its two debenture issues. The big question is what happens when BAY's credit agreement expires in May 1978. So far BAY's banks haven't forced it into wholesale asset swaps or other evidences of deep distress, indicating extension or some modification may be forthcoming then.

Recent results & outlook: BAY lost 69¢/sh. in the nine months to February after 45¢/sh. capital gains on sales and exchanges and 75¢/sh. gain on debt restructuring.

May quarter and fiscal year results will be out as you read this; we estimate the trust lost another 40¢-50¢/sh. in the May quarter, bringing the full-year loss to about $1.20-$1.30/sh., well below the $4.90/sh. loss of 1976. This looks to be the bottom of BAY's earnings decline and we'd look for further improvement in FY 1978. BAY has come through the recession with about $6.85/sh. net book value plus nearly $10/sh. in loss reserves. And while continuing losses may erode book value some more, the shares appear to have recovery potential to the $4-$5 range over the next 1-2 years. (KDC)

BT MORTGAGE INVESTORS (NYSE--1-5/8) FY Sept. 30

Real estate investments: Holdings of this one-time construction lending trust have now been slimmed to $151.6 million, down only 13% from the peak of Sept. 1975. Investments are 31% earning mortgages, 40% mortgages not earning income, and 29% in foreclosed property. Statistically investments are of types that should be responding to the real estate recovery: 31% apartments, 14% land, 13% motel/hotel, 11% office building, 10% nursing homes, 7% recreational facility, 5% shopping center, and only 2½% in condominiums. Foreclosures include $28.4 million of operating properties (mainly apartments and motels/hotels) and $15.4 million non-operating properties (mainly undeveloped land and incomplete construction). The operating properties lost $646,000 cash flow before financing and depreciation charges in the six months to March 1977, latest results reported, pointing toward substantial under-performance in these properties and little sharing in the real estate recovery to date. Real estate men say BT apparently is willing ts stick to above-market rental schedules and accept slow rent-up, rather than fill buildings with market-rate rentals that might reduce carrying values of their investments. BT has set aside $23.7 million as a reserve for possible future investment losses, equal to 15.6% of investments, above the 12½% industry average. About 70% of this reserve represents the "hard" cost of anticipated capital loss on disposition, while the rest is "soft" interest carrying charges and net cash flow during holding.

Financing: BT has borrowed about $112 million under a credit agreement expiring in about 45 days, on Sept. 30, 1977. It pays a minimum 4% interest plus contingent interest payable through 1982; contingent interest was $3.9 million (or $1.86/sh.) at latest report. The trust was unable to reduce principal as originally anticipated in the half-year to March 31 and actually had to borrow an additional $1.2 million in the latest quarter. About 58% of the trust's money commitment comes from sponsor Bankers Trust Co., a major New York City bank, and thus no difficulty is expected in extending the trust's credit.

Recent results & outlook: Operating losses continued in the latest nine months to June 1977, equal to 47¢/sh., all coming in March and June quarters; lower interest income and higher expenses on foreclosures were largely responsible. BT now has negative shareholders' equity of about $2.70/sh. net of unamortized debt discount and so continues operating at sufferance of its banks. The Sept. 30 bank credit maturity comes one day before the Oct. 1 semiannual interest payment on its $20 million of 5-3/4% subordinated debentures. On the surface everything looks dark here, with BT having to borrow to meet operating expenses and its operating foreclosures lagging the real estate recovery substantially, apparently due to management strategy to tough it out with higher rent schedules. We'd never suggest the shares except for the name: Bankers Trust is clearly hooked, has already put the bulk of funds into the trust, and likely will have to do much more to be able to hold its head high in the banking and financial community. We've already seen in the events at Chase Manhattan Mtg. & Rlty. Trust that large banks can be and are extraordinarily charitable with trusts bearing the imprimatur of other large banks. While bank negotiations with these banks are always surrounded with enough bristling to preserve an arms-length appearance, the large banks aren't going to drive a member of this elite "club" into bankruptcy. BT shares have been hitting new 1977 highs recently but on the theory that the best buys are when things look worst, positions in BT shares are now suggested. (KDC)

NORTH AMERICAN MORTGAGE INVESTORS (NYSE--3-3/8) FY Dec. 31

Real estate investments: A construction lender on urban properties, NAMI shut off commitments early in 1974 and has since been wrestling with portfolio problems brought on by the real estate recession. Holdings of $149.5 million at latest report are now 43% mortgage loans, 43% income producing foreclosures, and 14% nonearning foreclosures. About 44% of the portfolio isn't earning any income, including $44½ million of mortgages not accruing or in foreclosure. The trust added two loans totaling $9.3 million to nonaccrual status in the June quarter, including an $8.6 million loan on a Germantown, Md. PUD. This indicates NAMI's earning mortgage loans are now down to about $10 million and that a substantial portion of remaining loans are in process of being converted into foreclosed property.

Foreclosures are NAMI's main hope for restoring profitability. Income producing operating properties leaped from $19 to $65 million for NAMI last year as foreclosures were completed and put into operation. Start-up and marketing costs held cash operating income to a slim 1.3% return on average gross investment for 1976 but return jumped to a much better annualized 4.3% in the first quarter this year. This is still far below the 10% miniumum it must earn before these properties can support mortgage debt. But the trend clearly is in the right direction and with such a substantial percentage of assets tied up in operating properties, recovery hopes rest squarely in this sector. Holdings consist of $70.5 million gross investment in 18 apartment projects with 3,425 units, for an average cost of about $18,500 per unit. Apartments are about 90% occupied now and provide the bulk of operating income. Other operating income properties include a Santa Ana, Cal. office, New York City commercial building, and Tampa, Fla. motel. Non-operating foreclosures include $3.1 million in a North Miami Beach, Fla. condominium, and $4.4 million in three improved land parcels in Arlington, Va., Garland, Tex. and Rockledge, Fla. Condominiums are being sold and all foreclosures except the land are expected to become income producing in the next year.

Financing: Total debt is 2.3 times remaining shareholders' equity, a high but not unmanageable leverage ratio. NAMI has borrowed $55.7 million from banks under demand notes effectively at 125% of the prime rate. In 1976 and early 1977 NAMI exchanged $11.4 million mortgage loans with its banks, who paid 50% of the loan balances in cash to the trust. NAMI's gain on the exchanges was $78,000, or 2¢/sh. NAMI also has $16.8 million first mortgages payable on real estate owned and has received commitments for mortgages on two more properties. It's expected this mortgaging of properties will continue, with proceeds going to repay bank debt.

NAMI has announced that during October it will begin offering to exchange $1,050 face amount of a new 8½% senior subordinated debenture for each $1,000 face of its $27.8 million outstanding 5½% subordinated debentures due March 15, 1979. The new debenture will expire in 10 years and be covered by a 10% annual sinking fund payment beginning Nov. 15, 1983. The trust said it's unlikely that it will be able to retire the current debentures when they expire. The offer, if it succeeds, would raise interest costs by 62% and depress earnings by 22¢/sh. each year.

Recent results & outlook: NAMI lost $1.36/sh. in the six months to June 30, after a 68¢/sh. addition to the loss reserve in the June quarter. This points to operating losses continuing at about 34¢/sh. per quarter, or approx. $1½ million each quarter. While substantial progress has been made in turning around foreclosures, operating properties must generate much higher rents and operating income to stem the red ink. On the positive side, NAMI's loss is of high quality because it continues paying full bank interest, in contrast to trusts turning profits but paying less than full rates. NAMI's shares have been very weak lately as bad news piles atop bad news. NAMI's shares were among the last REITs to crack, for whatever reason, and the lesson of the recent REIT debacle is that trust shares should be bought, not sold, when everything looks darkest. NAMI is no more than 1½-2 years from emerging as a sizeable equity trust financed mainly by mortgage debt; book value has held up and while the $10/sh. left likely will erode further, the real estate recovery gives NAMI good recovery potential.(KDC)

CONTINENTAL ILLINOIS REALTY (NYSE--2¼) FY March 31

Real estate investments: One of the very large and highly leveraged construction mortgage trusts, CIR has now embarked on an aggressive asset swap program with its banks in an effort to slim holdings from $262 million at latest report. Like most other construction lenders, CIR's borrowers encountered serious difficulties in the 1974-5 real estate recession. But instead of going full blast to foreclose sour loans, CIR has concentrated upon working with borrowers through arrangements giving the trust substantially all the cash flow from properties. As a result foreclosures have been held to low levels, only 22% of investments at latest report. Remaining holdings are 75% mortgage loans and 3% in debentures, preferred stock and warrants of four real estate developers that are also trust borrowers. Holdings are considered quite aggressive generally, not a standard bank-style loan portfolio, with a good part relying upon relations with major real estate developers. About $58.6 million mortgages, or 30% of $196.7 million total loans, are under arrangements in which trust income depends upon results of rentals and/or sales. These projects earned $1.67 million for the trust in the March 1977 fiscal year, equal to 2.9% return on gross investment.

At March 1977, CIR reported $122.1 million investments, or 46.6% of the total, not earning income and an additional $85.4 million, or 32.6%, on limited earning status. While total impaired assets were down in the aggregate, they rose slightly from 78% to 79% of total assets. Foreclosed properties of $57 million at year-end were 43% land held for sale, 41% condominiums held for sale, and 16% operating properties, mainly apartments. The trust sold $5½ million condos in 1977 and the $23.3 million remaining condos would take 4¼ years to sell at last year's selling rate. CIR strategy has been to take over sale-type properties while leaving income-producing properties in hands of borrowers. Thus projects essentially controlled but not owned by the trust are 82% apartments and 15% mobile home parks.

Loss reserve and swap program: CIR has set aside $40.3 million as reserve for possible future losses, equal to 15.3% of investments and above the 12½% industry average. As part of its new bank credit agreement, CIR has agreed to make $140 million of assets available for swapping to its banks through monthly bidding. So far CIR has received $56.4 million bids on assets with about $52 million book value, indicating the trust will register about $4.2 million, or about $1.50/sh., gains on swaps. Biddings are to continue through March 1978.

Financing: CIR signed a new $180 million credit with its banks in June, giving it a 1% basic interest rate plus contingent interest. The trust must cut debt to $140 million by March 31, 1978, and the credit expires April 30, 1978. CIR had been paying interest at a 4% minimum rate before, and had built up $19.8 million in unpaid contingent interest at end of FY 1977. The asset swap program is an integral part of the bank credit, and the trust says that bank debt would be cut from $169.7 to $111 million if all swaps currently in process are completed.

CIR still must cope with $25 million of 7-5/8% senior subordinated notes coming due on Dec. 15, 1979, little more than two years away. The notes are now trading on the NYSE at 86, giving buyers a 14.8% yield to maturity. Thus CIR's tactical situation is quite similar to that of North American Mtg. (see above), except that its coupon is higher. It would take a massive liquidation job (i.e., enough assets to repay $111 million remaining bank debt plus the $25 million notes) to let CIR pay these notes on schedule. We'd expect some modification or extension attempt, probably along the lines of NAMI's offer--if NAMI succeeds.

Recent results & outlook: June quarter results were essentially break-even, at a $2,000 loss, and the trust is looking forward to perhaps turning a small profit this year, especially with some swap gains in view. However, profits determined after a 1% interest rate on up to $187 million bank debt are quite different than profits for a trust paying full interest. Right now CIR shares have nominal book value of about 12¢/sh. after unamortized debt discounts, so that substantial recapture of loss reserves will be needed to give the trust any substantial book value

for investors. Nobody says it but we'd expect bank gentleness to a member of the "club" to hold true here, so that the awkward collision with maturity of public debt in about 2-1/3 years can be finessed. We have great difficulty in projecting any upside price target on these shares but believe there's enough room in recapture of the loss reserves to make them worthwhile speculations at this time. (KDC)

PROPERTY TRUST OF AMERICA (5 1/8--OTC-PTRAS) FY Dec. 31

Real estate investments: This equity-directed El Paso, Texas trust continued to modestly upgrade its portfolio the past few quarters. While no non-earning holdings were moved out, progress was made and the basic portfolio upgraded. In the investment portfolio, another marginal apartment project was weeded out in the June quarter. This was a 58-unit dwelling in southeastern Houston, a blue collar area where it was originally thought rehabilitation would succeed. Although the property was negative cash flow, sale was profitable. Three more investment properties like this are planned for sale, two in Houston and one in Dallas. This is an ideal time to sell apartments as buying activity is strong in these markets. Two purchases were also made this year, the one in March increasing the portfolio $2.7 million to $35.3 million. A 75% interest was obtained in the Crown Tower Office Building in San Antonio for $620,250 over a $2.2 million mortgage. The trust gets a 9½% return going to 10% in two years. The building is now 98% leased. A second purchase was made in August with $247,000 cash investment for a $1.1 million, 41,000 sf industrial complex. It is well located at intersections in San Antonio. Purchases are hard to find though with deals well picked over. Nevertheless, management is scouring the countryside around the home office in southwestern Texas.

The investment portfolio is improving further. In 1976, net cash flow from equity investments in income properties went to a positive $321,000 from negative $57,000 in 1975. In the first quarter, these properties were earning 9.4% free and clear on gross investment. The heart of holdings is some better apartments (mostly Houston), a few shopping centers and a Holiday Inn Motel in San Francisco. The biggest recovery is the $1.9 million doctors' building in Dallas which fell to 50% occupancy in 1975 but is now 80% occupied and headed higher.

The non-earning segments are progressing unevenly. One tough problem is $1.7 million in 19 acres in Houston's Galleria area. Foreclosed and held for investment, title is in deep litigation. Hopefully it will be resolved in about six months, but no development plans can go foward. This acreage holds great developmental potential. The shopping center in El Paso, in which the trust has $2 million, is under construction again. It should be completed in 100 days. Leasing is good and the center is expected to be earning in 8-9 months. Location is considered excellent in southeastern El Paso. Another $2.1 million is in 160 acres in Houston. This is close to sale for all-cash around book value. The trust has $2.8 million non-earning loans. About $650,000 is in Crowley, Texas (a Ft. Worth suburb) where the developer is back in business with financing now available. This loan was never delinquent but exceeded the appraised value. It should go back to earning in the second half. The $1.5 million loaned for development of an industrial park in El Paso is the toughest nut in the portfolio. On New Mexico's border, the project was originally intended for port of free entry purposes but this never materialized. The trust received $200,000 in land and forgave $200,000, marking the loan down to market value. But there is no workout apparent. The final $700,000 loans were for El Paso land tracts now foreclosed and being liquidated. If these progress at anywhere near anticipated speed, $5.3 million of the $8.6 million non-earning total will become productive within nine months. This would reduce the non-earning percentage of 24% by over half. Since there are no debt repayment pressures, continued handling of problems should be from an advantageous bargaining position (see RTR, Feb. 11, 1977 for earlier details).

Financing: Equity is leveraged 0.9 to 1. Debt is effectively all secured mortgages. Beyond the light leverage ratio for an essentially equity trust, of late there was $1 million excess cash. Management: Trust is self administered by local

businessmen who took over 2½ years ago.

Results & outlook: Earnings and cash flow remain nominal although running a little higher than a year earlier. In the June quarter, earnings and cash flow were 2¢ and 5¢/share, respectively, before 5¢/share capital gain. Given continued upgrading of the investment portfolio and imminent reduction of nonearning loans, noticeable improvement should take place by yearend. The 5¢ quarterly dividend is the minimal expectation. The shares have already discounted some improvement but should appreciate further longer term as the earning power of $7.50/share book value is likely to assert itself. (BS)

WACHOVIA REALTY INVESTMENTS (4¼--NYSE-WRI) FY Aug. 31

Real estate investments: Holdings have been reduced by a third, to $120 million, from the peak of $180 million in fall, 1974. Investments are now 58% mortgage loans, 41% foreclosed real estate and 1½% equity. Latest available mix by type was 21% apartments, 19% commercial (mostly office buildings), 17% land, 13% condominiums and 12% hotels. Holdings are mainly in the southeast and southwest with some of the big states being Florida, North Carolina, Texas and Connecticut. Management has been active in working with the troubled portfolio, foreclosing bad loans, rehabilitating properties and selling the more marketable ones. It started the fiscal year with the largest amount of problems in apartments and office buildings. In recent quarters, it has had the most success in liquidating these two types, particularly foreclosed apartments via sale.

Liquidating holdings in this manner, selling those properties which are brought up physically and provide the best cash flow records, is inherently the most depressing on operating performance. Yet the proportion of non-earning holdings has remained fairly steady at around 72% of investments. Additionally, operations of the foreclosed segment improved in recent quarters with a $14,000 profit in the May quarter although this segment lost $448,000 in the nine months. This is not an altogether reliable indicator, however, as expenses at one large property could alter this when deferred maintenance is required. Nevertheless, the improved tone of real estate generally has rubbed off on many of the trust's categories. In addition to apartments and office buildings, there has been continued liquidation of condominiums and some land sales. Motels are a little slower because financing is lacking and the trust may have to provide financing to facilitate some sales. And much of the land is still a ways from sale although interest has picked up for some parcels. It is hard to generalize about property performance by type or state because there is so much variation in this large portfolio.

Loss reserve: The $17.6 million loss reserve amounts to 14.7% of investments, above the industry average. Thus far, it seems appropriate as dispositions are taking place at around reserved value. Additional provisions have tapered off running an average of 12¢/sh. quarterly in the first three quarters of fiscal 1977.

Financing: Debt is 1.9 times equity, a low ratio for a construction lending trust at this stage of the real estate cycle. Borrowings were reduced $11 million so far in fiscal 1977. In August 1976, a three-year agreement was signed calling for interest at the prime rate plus contingency at 125% of prime of up to 50% of earnings through 1989. Repayments are required which were met for fiscal 1977. These repayments, however, are dictating portfolio liquidation strategy.

Results & outlook: Operations have improved steadily with the May quarter loss only 24¢/share after 13¢ loss provision. Exact breakeven and the salvagability of remaining book value of $10.74/share will depend on the timing and success of future dispositions. The trust's viability looks assured but this is recognized by the stock market price. We would therefore hold up purchases of the shares until the underlying improvement can be better quantified. (BS)

CHASE MANHATTAN MTG. TRUST EXTENDS ITS EXCHANGE OFFER UNTIL AUG. 19

Chase Trust has extended its offer to exchange a new 11-5/8% debenture convertible at $2.25 and due 1997 for its outstanding three issues of subordinated debt until Aug. 19. At initial expiration $15.7 million, or 23%, of the 7½% debentures had agreed to take $650 face amount of the new issue, and $11.2 million, or 26% and 46% respectively of the 6-3/4% and 6½% convertibles, had agreed to take $550 face amount of the new debenture.